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John Viskup

From: Mark White [mwhite@victoryenergyinc.com]

Sent: Friday, March 26, 2004 5:48 PM

To: John Viskup

Subject: VEO Response to EPTI License Concerns

Please review and return.

Mark J. White General Manager Victory Energy Operations Ph. 918/274-0023 Mobile: 918/808-2846 Fax: 918/274-0023

6/7/2005

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VEO1013



March 26, 2004

Robert Gdaniec Erie Power Technologies, Inc. 5300 Knowledge Parkway Suite 200 Erie, PA 16510

Subject:

EPTI License Agreement Concerns

EPTI Email of 2/26/04

Gentlemen,

We have reviewed you subject letter which details your concerns regarding Victory Energy Operations, LLC (VEO) compliance with the License Agreement dated January 7, 2003 and subsequent Annex's. In this regard, we provide the following.

The Agreement does provide specific geometry and characteristics but also allows 1. for improvements, refer to Clause 13. As such, VEO has made improvements which are necessary to offer/provide a Keystone boiler that is technically compliant with our customers requirements, is inline with that of our competitors offerings and as we deem necessary to enhance our overall success.

The Oxyvinyls Project includes two (2) 15M Series Keystone boilers each of which include membrane furnace and outer walls, watercooled front and rear and an upper drum size of 60" ID. These features are outside the geometry and characteristics of the License but are clearly improvements. The furnace and outer wall construction will eliminate any CO emissions from bypassing through the unit as is the case when tangent tube construction is provided. The watercooled front and rear wall construction will reduce wall failure and long term maintenance and the larger upper drum provides an increase in storage capacity.

The Dallas Forth Worth project includes a single 15M Series Keystone boiler. The drum to drum centerline height has been increased and the boiler length shortened. EPTI was notified of such changes within the email of 12/19/04 to Bob Gdaniec and Steve Bertnatowicz a copy of which is enclosed. Most recently, VEO has issued an order to EPTI to provide a circulation study of which is ongoing.

Our marketing efforts have and remain focused on the Keystone M series. The improvements are offered where VEO deems appropriate. VEO is not marketing customer designed Keystone boilers.

Victory Energy Operations • 302 E. 5th Ave. Unit "D" • Owasso, OK 74055 • Phone: 918-274-0023 • Fax: 918-274-0059 C:\Documents and Settings\JohnV\Local Settings\Temporary Internet Files\OLK43\3-26-04 Response.doc

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- Agreed, however with improvements such as membrane furnace and side walls
 etc. the data as provided within Section P of the Keystone Design Manual is not
 accurate. VEO has completed necessary tube layouts, surface area calculations
 etc. to ensure the boiler performance reflects these improvements.
- 3. We are not aware of any such information and will consult with our employees in this regard. If any such information is discovered, we will return immediately.
- 4. To date no changes have been made without EPTIs knowledge. Any such improvement that have been made fall under Clause 13a) whereas such disclosure shall be made not earlier than six (6) months after such improvements have been introduced into commercial production. Our first such boiler system including improvements entered into operation on 3/19/04.
- VEO is in the process of arranging a training secession. Discussions are ongoing with Jay McConaughy and Bob Gdaniec.
- 5. As a part of the License Agreement, VEO has been granted the right to provide Keystone M Series boilers which include superheated steam which require improved steam purity over that of saturated units. Although it is not defined within the Annex VEO cannot provide superheated boilers without the proper details of the drum internals. We would expect EPTIs cooperation and not hold VEO hostage to purchase the equipment solely through EPTI.
- 4.a Regarding the second License Payment, an invoice was only sent to VEO only after written notice was provided EPTI to issue an invoice for such payment. Although we have received the invoice, we have withheld the payment as we have been going through various discussions relative to a possible purchase of the Keystone Boilers of which the 2nd payment has been part of the negotiations.
- 4.b The brochure and sales information provided is the sole property of VEO and disclosure will not be provided nor is required by the Agreement.
 - Photographs of the Mark will be provided for the various boilers provided.
- 4c. New project disclosure is not required by the License Agreement.
- 4.d It was agreed by Stephen Kang that Bob Gdaniec would be replace Ted Fuhrman as the single point of contact for License related questions etc. We do not desire to change the interface at this time.

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Should you have any questions or comments regarding this letter, please do not hesitate to contact me.

Very Truly Yours,
VICTORY ENERGY OPERATIONS

Mark J. White General Manager Ph. 918/274-00232 Mobile: 918/808-2846

Email: mwhite@victoryenergyinc.com

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